

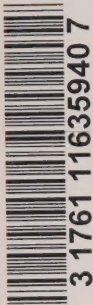
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The Elements of an International Shipping Policy for Canada

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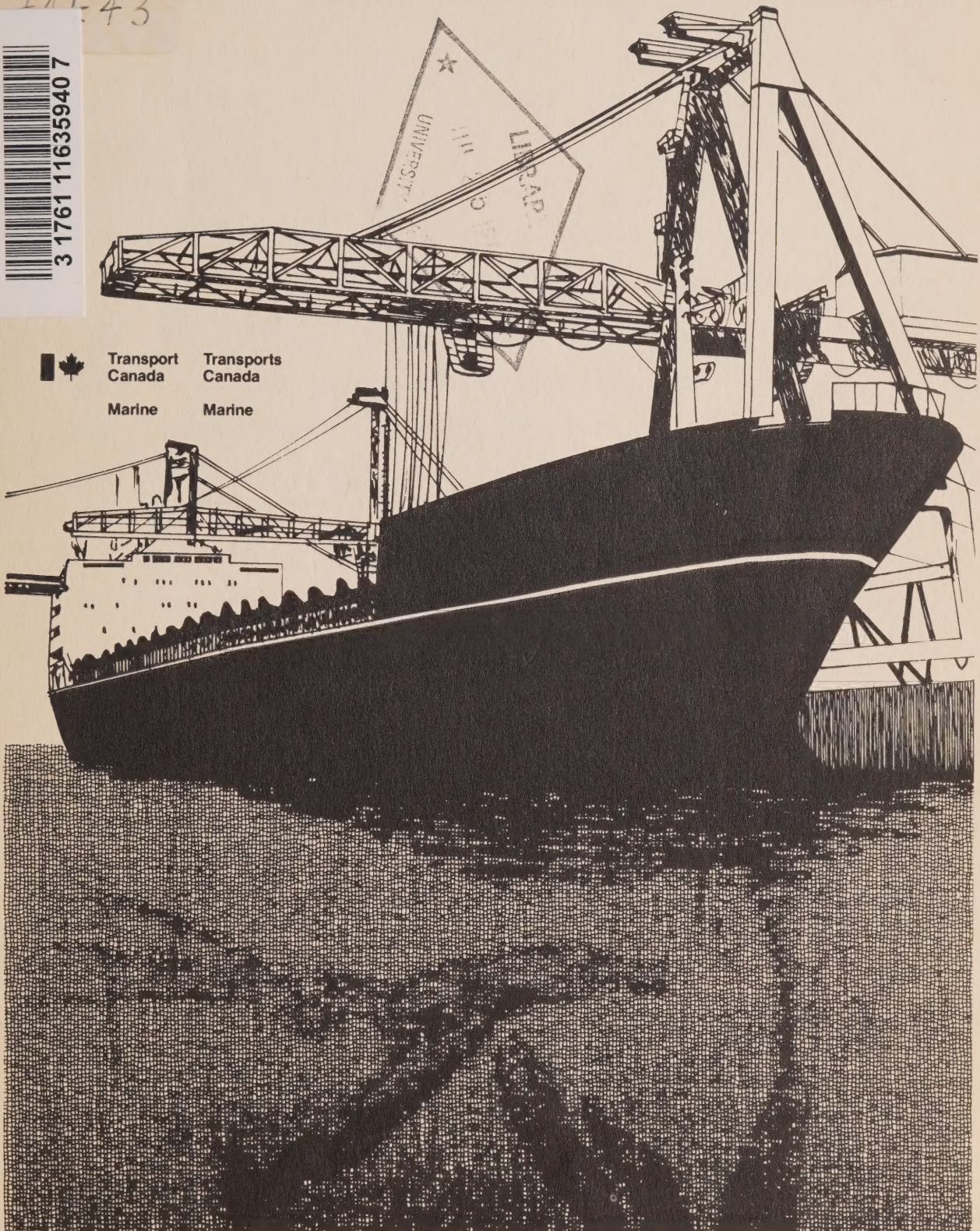


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Prepared by : H. J. Darling

THE ELEMENTS OF
AN INTERNATIONAL SHIPPING POLICY FOR CANADA

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INTRODUCTION

This study on the basis of an international shipping policy for Canada was commissioned by the Marine Transport Administration of the Ministry of Transport. By its terms of reference, it is to "provide a brief resumé of the background and issues in any projected development of Canadian-flag deep sea shipping, with emphasis on the policy options available, their relative importance and practicality and the priorities and co-ordination necessary to initiate an effective and economic policy".

The subject matter of "international shipping policy" for the purposes of this study is confined to its commercial and economic aspects and has no reference to matters of navigation or other technical aspects of ship operation and safety, or of the rights and responsibilities of ships and nations in coastal and international waters.

It must be noted also that it covers a different problem area from that of the Hedlin Menzies Study of 1970. The latter was primarily concerned with the economic feasibility of Canadian-flag shipping, involving a selection of the most promising trades and types of ships and the estimated capital and operating cost differentials, rather than with the needs, scope and implementation of an international shipping policy as such.

Coasting trade is likewise not directly a concern of this study, although attention should be drawn here to possible points of contact between coastal and international shipping policies where decisions of policy and administration will be called for:

(1) In a country such as the United States where government policy accords greater financial and other assistance to international than to coastal shipping, the law requires a complete separation of international and coastal shipping, both as regards the management and the use of the ship, with the exception of the Great Lakes and North Pacific coasting trade where voyages to Canadian ports are permitted.

(2) There will be numerous cases where a Canadian ship can advantageously undertake both coastal and international voyages, and in fact, in Arctic resources and petroleum products, such a combined use may offer the best way of introducing Canadian ships into the international trades, because of the seasonal limitations in both the Arctic and the Gulf of St. Lawrence.

(3) Special assistance intended for international operators will raise the question of its applicability for coastal operators, of possible detrimental effects and of conflict of interest situations. As a strict segregation, as in United States law, will probably be regarded as both impracticable and undesirable, the implications for coastal operators and for the costs of any particular project will have to be carefully weighed. This lends weight to the point

(iii)

raised in the study of the advantage of having both a policy for general application and the authority to deal with particular situations without having to proceed by measures that must have general application.

I would like to take this opportunity to express my appreciation to Mr. Jean Cholette, a summer student at the Ministry of Transport, for his very capable assistance in assembling bibliographical and statistical data.

H. J. Darling
Ottawa, Ontario.
August 16, 1974.

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SUMMARY OF THE CONTENTS OF THE REPORT

(1) The negative attitude to international shipping policy in Canada has been due, on the one hand, to unrealistic demands for Canadian-flag ships having no solid basis in concrete Canadian interests, and on the other hand, to an indifference based on a confidence in the workings of a highly competitive international shipping industry.

(2) A realistic shipping policy begins with the recognition of the clear distinction between matters directly or potentially harmful to Canadian interests, and matters which merely appear to offer advantages for Canada but must be compared with other opportunities. The standards of judgement for policy choices are different in each case.

(3) The varied conditions applying throughout international shipping furnish the context for decisions on Canadian shipping policy. International shipping remains competitive, but its competitive nature is changing. Competition in a free market is diminishing, but competition between large shipping consortia backed in many cases by their states is increasing as is also direct competition from national fleets that define economic decisions differently. Canada, with its hands-off policy is close to becoming a unique case among the world's main trading nations.

(4) The shipping industry has become very capital-intensive, which leads naturally to oligopoly or monopoly situations such as price maintenance and selective competitive tactics that cause a very irregular distribution of the benefits of competition or eliminate them in unprotected areas.

(5) Shipping policies are becoming increasingly nationalistic, pursuing long term goals and ignoring unfavourable cost-benefit ratios in both short term and long term situations.

(6) Bilateral agreements that effectively squeeze out third flag operators constitute a serious threat to the rates and services offered Canadian shippers and to the use of Canadian ports. This applies with respect to such agreements between the United States and South American countries.

(7) The UNCTAD Convention on a Code of Conduct for Liner Conferences is in reality a high-level endorsement of completely nationalistic shipping policies. Regardless of whether it ever comes into force it is a clear warning to all nations to protect their own interests with regard to the policies it endorses and which are already being practised by some countries on a scale greater than would be justified by the terms of the Convention.

(8) While United States maritime policy has goals that are not necessarily relevant to Canadian conditions, what is relevant is the unity of purpose and administration, the aggressive pursuit of the goals and the successful fostering of awareness and support for the policy on the part of business and the general public.

(9) In Canada shipping policy is fragmented between different departments and agencies, each having its own priorities and terms of reference. There exists neither a definition of objectives, a unified administration, an authorization of powers for dealing with the subject matter nor any continuity of purpose or effort. Interventions, where possible at all, require a cumbersome procedure, and are necessarily limited to the vague generalities that are all that can safely be deduced from the equally vague guidelines that are available which for the most part must themselves be thought up.

(10) Shipbuilding policy and international shipping policy have certain logical points of contact but their objectives are essentially different and they should not be required to work closely as a team. Such an arrangement is probably guaranteed to compromise the aims of one or the other. Increasing specialization in types of ships and the advantages of confining work to one or two such types for building in series is to be set against the increasing need for shipping policy to deal with specific interest situations to emphasize the difficulty of maintaining any successful integration of policies in these two fields.

(11) Canadian operators of ships under other flags are either not interested in changing to Canadian flag or would be willing to do so only if the profit possibilities appeared equal. At the same time, there does appear to be a belief on the part of some that the conditions for equalization are becoming less onerous and might be achieved by use of some of the financing and tax deferral techniques now possible in other countries, and which would involve a minimum of direct outlay of government funds. It is felt that the advantages of the EDC credits available to foreign buyers of Canadian ships should be made available to Canadian operators in some equivalent form.

(12) Canadian labour unions seem prepared to regard Canadian deep sea shipping that might result from a policy of encouragement as a new ball game for which it should be possible to lay down rules at the outset satisfactory to all parties. They do not seem to find unreasonable a modern manning scale nor a requirement of binding arbitration of disputes as a condition for qualifying for any government program of assistance.

(13) The principal interest situations that would call for attention include:

(a) The movement of Canadian resources in the bulk trades, such as ore, coal, etc.

(b) The role of Canadian ships in the development of the Arctic.

(c) The examination of Canadian interests with respect to the container consortia that have taken over the greater part of the general cargo trade; this would involve the competitive position of Canadian ports as against American ports.

(d) The consequences of the bilateral shipping policies of other countries.

(e) The position of Canadian ports as a result of modern shipping trends.

(14) The powers for administering a shipping policy should include the ability to use a wide range of techniques to realize both short term and long term objectives. Fullest use should be made of the expertise and services of Canadian deep sea shipping operators now under foreign flag. Bargaining situations should be explored and exploited to increase the effectiveness of actions to implement policy.

(15) The basic prerequisites of an effective shipping policy include the following:

(a) A definition of objectives which will make clear the importance of shipping problems in themselves, rather than to regard them as adjuncts and afterthoughts to other policies.

(b) A unification or a coordination of responsibilities.

(c) The equipping of the authority with powers commensurate with the stated objectives of that policy.

(d) A flexible and aggressive administration, able to take initiatives in short term situations and to sustain drives for longer term objectives.

(e) Apart from whatever steps might be taken in particular interest situations, there should also be a general shipping assistance program available on prescribed terms to any Canadian operator which would permit him to take his own initiative in deep sea shipping but would not involve any government responsibility for maintaining the operation. Such a program should therefore not include direct capital subsidies beyond the shipbuilding subsidies already available, nor operating subsidies.

THE ELEMENTS OF A CANADIAN SHIPPING POLICY

This study commissioned by the Marine Transport Administration of the Ministry of Transport is referred by its terms of reference to "provide a brief resumé of the background and issues in any projected development of Canadian-flag deep sea shipping, with emphasis on the policy options available, their relative importance and practicality and the priorities and co-ordination necessary to initiate an effective and economic policy".

The time available for the completion of the study has meant that no analysis in depth of the many aspects of the problem and of the proposals suggested has been possible. It must be regarded as the parboiling of a particularly tough issue preparatory to the actual "cooking" into a well-conceived and effectively administered program consistent with the national interest by those who regularly work in the "kitchen".

The issue of a Canadian deep sea fleet has never dropped completely out of sight but continues to be raised in a context that has become increasingly inappropriate. Advocates have gone on in idealistic vein to point out that a major trading nation as Canada is should show its flag in the ports of the world creating jobs and income in shipping and shipbuilding in so doing. On the other hand opponents have taken a down-to-earth approach in pointing out that the international shipping business is one of the largest remaining strongholds of free competition and has benefitted from tax exemptions and other financial assistance from many countries, with the result that

Canada can buy shipping services at a quality and price level that she could never attain with her own shipping except at a prohibitively high cost. They ask quite rightly why under such circumstances financial resources should be diverted into international shipping. The deficiencies of the affirmative argument have long been evident but in recent years developments in international shipping have shaken some of the complacency of the negative argument that we can safely depend on the competitive market alone to protect our interest in this field. What seems to be required is a reconceptualization of the problem so that, the facts having been swept from under our feet, we are no longer left clinging to the logical consequences of outdated premises. Thinking on this matter needs to be "loosened up" so that the widest possible range of alternatives for policy can be seriously entertained.

I. Conceptualization of the Problem

The first step toward the solution of a hitherto intractable problem is to discover the best way of thinking about it. Problems are often rendered obscure and difficult simply because the terms and distinctions employed either hide or fail to bring out the essential points, so that no practicable range of choices can be found. This seems to have been the case with respect to the deep sea shipping issue in Canada as may be shown in the light of a difference set of concepts.

I propose to distinguish in the first place between "interests" and "advantages", considered from a national point

of view. By "interests" or "interest situations" I refer to those situations and issues where if no action is taken the national position may be weakened or rendered vulnerable to present or future developments. Such interest situations are often particular and usually concrete and capable of clear definition. They may arise suddenly and require prompt action and therefore both the authority and strategy for dealing with them should as much as possible be readied in advance bearing in mind the inevitable lag in the mobilization of government efforts to deal with issues for which both authority and strategy are initially lacking. Interest situations tend to require specific answers normally made possible by accepting limited goals and selective methods. Behind such individual solutions lie general principles and guidelines but it should not be necessary to deal with limited problems only by proposing general programs of the widest application. Particular interest situations that have been connected with the need for Canadian-flag shipping include: the threat of bilateralism to the competitive nature of international shipping, the concentration of services under containerization, the export of bulk commodity resources and the threat of loss of lines serving Canadian ports.

"Advantages" or "advantage situations" on the other hand represent opportunities for national gains which are neither certain nor necessary. They may be rejected in favour of other opportunities without causing any erosion of the national position. They are therefore judged as much by general criteria as interest situations are by particular needs.

They are properly evaluated in terms of alternative opportunity costs, cost-benefit analysis and in the context of total government investment and expenditure. A significant difference is that in the light of an advantage situation, specific actions may be criticized on the grounds of giving preference. Why, it may be asked, should Shipping Company A receive a benefit and not Shipping Company B, or why should shipping be given preference over other modes of transport, or transportation itself over other national objectives? Examples of advantage situations that have been connected with the need for Canadian-flag shipping include: employment in shipping, benefits to the shipbuilding industry, to Canadian trade and to the balance of payments.

It may now be evident that what has happened in the debate on deep sea shipping is that particular interest situations demanding a policy response have been used as arguments for a Canadian program for participation in deep sea shipping, but the accompanying advantage arguments have been rather easily rejected in terms of the general criteria already mentioned that are applied to such arguments. In other words, the discussion has been quickly transferred to the general and abstract level of advantages and resolved on that basis leaving the interest situations in a state of neglect with neither policy, authority nor strategy made ready to deal with them. We are left to suffer from the very practical consequences of accepting the notorious cliché: "in Canada we don't need a shipping policy because we don't have any ships".

This will serve to establish the basic point of view of this study. Canadian-flag shipping is not to be considered as an isolated objective to be taken up or rejected solely on the evaluation of certain hypothetical advantages. It is not to be divorced from its context of the general situation in international shipping as it affects Canadian interests. The priority should be given to dealing with the specific interest situations, or perhaps more realistically, with putting the government in a position to be able to deal with these interest situations. As will be pointed out, there are a variety of ways of dealing with these situations, of which the use of Canadian-flag shipping is only one, and probably not the most effective where immediate or stop-gap solutions are required. Yet it remains a valid long-term objective not to be achieved at one stroke but step by step as our ability to protect our interests in the field becomes established and yields practical results. The focus of attention should always be directed to interest situations and any advantages of Canadian-flag shipping should be regarded as supplementary benefits or bonuses, but which if pursued too eagerly for their own sake and detached from interest situations, might merely result in a drain of resources greatly exceeding the supposed advantages. Under a well-conceived policy and favourable conditions it is possible to see that the factors favourable to Canadian-flag shipping would grow cumulatively, whereas a policy amounting to force-feeding might only discredit any future attempts to develop that operation.

II. Current Conditions in International Shipping

In this section attention will be drawn to the more important trends in international shipping at the present time with emphasis on those that might be relevant to Canadian interests or to any attempt to establish a nucleus of Canadian-flag shipping.

1. Increase in scale and capital intensiveness.

The prolonged period of industrial growth in the post-war period has seen a corresponding growth in international seaborne trade, particularly in bulk commodities such as fuels, industrial raw materials and grain. This has in turn made possible a steady increase in ship size and automation and a corresponding increase in the cost of an individual ship. With a VLCC (very large crude carrier) costing up to \$40 million and an LNG (liquified natural gas) ship perhaps double that amount, the capital investment on a single ship will exceed the investment in many sizable industrial firms which will have been built up over a period of many years. Shipping has become a capital intensive industry and the critical point has become the initial financing terms which will determine the weight of the capital costs on the ship's annual earnings. International shipping has thus become an industry sustained by a very plentiful supply of credit on very generous terms. Labour costs have declined in importance, comprising less than 20% of the operating costs of a large modern ship and wage differentials between different countries have narrowed.

The pace in international shipping is set by those operators who have been able to free themselves almost completely

from national control of their financial operations. Operating ships under flags of convenience (Liberia, Panama) or from tax havens (Bermuda, Bahamas) they avoid corporate income tax and at the same time are able to take full advantage of the generous financing terms offered by the competing national shipbuilding industries. To permit ships of their flags to compete the major shipping nations have in turn created a variety of programs utilizing the full arsenal of financial devices designed to produce low financing costs and to lighten or defer indefinitely the tax burden. These aims are accomplished by permitting write-offs of taxable income, either of the shipowner himself or of a company leasing to the shipowner or "married" to the shipping corporation for tax purposes, through liberal depreciation or capital grant allowances. It could be said that the pool of taxable income in the country is drawn upon for purposes of promoting the shipping industry. At the other extreme there are direct subsidies for shipbuilding and ships operation.

International shipping is thus a highly competitive industry employing a large number of sophisticated, or at any rate ingenious, financial devices whose common use makes them an almost necessary part of the methods of any operator or country who enters the game. The alternative would be to offset such advantages by the direct payment of subsidies or coverage of deficits.

2. The effect of international competition attitudes.

International shipping has not only been a highly competitive business between operators, but also between nations. It is important from the standpoint of Canadian interests that the essential differences between these forms of competition

be appreciated. It is also worth emphasizing that Canada is almost unique in the world in being a country whose unofficial philosophy is that shipping is just another industry. This is the case in almost no other country. Even a landlocked country such as Switzerland has ships registered under its flag. And if there are many developing countries, barring the very small ones, that thus far have shown no active interest in shipping it is safe to assume that only lack of resources holds them back, their inaction is not because they share our point of view. Decisions in international shipping are not going to depend on the outcome of a debate conducted within the assumptions of classical international trade theory. For Canadian policy the important point is to be able to react to the probably consequences of the fact that most other nations hold an opposite view and will govern their actions accordingly.

International shipping is valued for different reasons by different countries: it may be the major national industry (Norway, Greece); it may be linked to long standing trade, balance of payments and strategic considerations (United Kingdom, United States); it may be an important source of foreign exchange (Soviet Russia); it may be regarded as essential to development (Brazil, Ghana). Such considerations are supported by others relating to the generating of industrial activity such as ship-building and knit together with prestige considerations. The ship's flag in a foreign port is a form of national advertising, an indication that the country must be progressive to be able to

participate in the fast league which is international shipping. The sum of such consideration overrule any purely economic assessment of current operations. Nations are drawn into the competitive whirl expanding their assistance to their shipping regardless of whether they be traditionally free traders, socialists or anything between. International shipping may thus be divided into three main groups - The flag of convenience fleets which are comparatively free of national controls; the privately operated fleets of the maritime nations, competing with flags of convenience and among themselves with varying degrees of assistance from their governments, and the nationally owned and operated fleets of the Soviet bloc and of many other nations, not all of which are developing countries. With the latter group, it may be assumed that a failure to compete economically will result in additional government assistance rather than withdrawal from the trade. With such assistance they may in the long run outlast those operators who must still work within economic bounds, unless these in turn are rescued by their governments. This suggests that the gradual penetration of nationally supported or operated ships will in time greatly alter the nature of the competitive struggle within the industry. Already it can be seen that national involvement tends to bypass the usual competitive methods of rates and services in favour of cargo preferences which are designed to eliminate competition, strengthen rates and eliminate those services due solely to the effect of competition. If there is no effective reply to these tactics Canada could eventually be left at the mercy of foreign national lines, the cross traders having been driven out because

of lack of return cargoes, leaving the national lines free to decide what rates and what quality of service they will offer, and what part of Canadian traffic they would prefer to load or discharge at United States ports.

A particularly clear indication of the possible shape of things to come is given by the recent activities of the Committee on Shipping of UNCTAD culminating in the adoption of a Convention on a Code of Conduct for Liner Conferences on April 6, 1974. In this Committee an overwhelming majority of countries, being from South America, Africa, Asia and including the socialist countries face the developed market economy countries who have been responsible for the creation and maintenance of the free market in international shipping, reliance upon the continuation of which has been about the only clearly identifiable element in Canadian shipping policy. The adoption of the Convention indicates that there is a strong international consensus in favour of national shipping lines and the sharing of cargo preferences between them.

The final terms of the Convention reveal to what extent the originally avowed aims were twisted to produce something entirely different. Originally the subject was raised to deal with objections of the developing countries that the shipping conferences, largely dominated by the private lines of the maritime nations, were discriminating against the trade of those countries, hence the title of the Convention: A Code of Conduct for Liner Conferences. These views however remain only in the opening paragraphs dealing with "objectives and principles".

From the opening line of the operative chapters the emphasis has been shifted to the rights and privileges of the national shipping lines contrasting with the strict obligations and rather limited rights and access to traffic of the lines of third countries. The Convention was passed by 72 votes to 7, with 5 abstentions, including Canada. Maritime nations supporting the Convention included Japan, Belgium, France, Federal Republic of Germany, Spain and Turkey.

The most prominent provision of the Convention is contained in Article 2, paragraph 10, which states that the national shipping lines shall have equal rights to participate in conference trade between their countries, and that "third country shipping lines, if any, shall have the right to acquire a significant part, such as 20 per cent, in the freight and volume generated by that trade". How far the Convention will have practical effects if adopted - and a sufficient number of countries and volume of shipping were available in the affirmative vote - remains to be seen. The cargo sharing terms are only binding upon the signatory nations "unless otherwise mutually agreed", but these may be quite unnecessary for the national lines to achieve dominance since bilateral agreements will leave insufficient traffic to sustain the operations of third-country lines. Although the United States opposed the adoption of the Convention its current negotiations for bilateral shipping agreements with South American countries go beyond the stipulations of the Convention and can have serious repercussions on Canadian trade because of the combining of Canadian-United States trade in the activities of the lines serving the intercontinental trade.

Another very prominent recent development in international shipping - containerization - is also creating conditions which will render a passive reliance on international competition inadequate to protect national interests. Containerization is but another facet of the increasing capital-intensiveness of international shipping, which is continuing to bring the costs of shipping operations into a closer resemblance to railway costs, whereas the nature of the costs of liner and tramp services of former years were more akin to that of the trucking industry. The predominance of capital costs has its effects on pricing and marketing strategies as well as on the structure of the industry. These are already evident in the trend to consolidation - fewer and more expensive ships, fewer lines, fewer ports of call - and the formation of a tight cartellization on the main routes with agreements as to rates, ports and territories to be served. These decisions are being made by conferences whose power has increased as their share of the total traffic has increased and it is proper to assume that they are being made primarily in their own interests. It may only be coincidence that the decisions will be found to coincide with the interests of Canadian trade and Canadian ports and policy cannot be based on such vague hopes.

A comparable development in the bulk trades are the shipping pools, up to the present largely confined to the major private shipping operators. The posting of ships is a highly effective device for the capturing of traffic, for, just as the owners of one truck can only go after certain types of business and perform jobs one at a time, an owner of a fleet of trucks of different types is able to bid for large contracts and also

more likely to have equipment available whenever new business appears. In international shipping this is exemplified by the growth in contracts of affreightment, which are contracts for total volume of freight to be moved on the responsibility of the shipowner or pool within a specified period of time. The flexibility which a large pool of ships operating on contracts of this type gives to the operators has many economic advantages, and one may expect that, if only in self-defence, other operators will either have to duplicate this ability with large fleets of their own or be forced into pools with other small operators in order to compete on even terms. Here again monopoly or oligopoly, with or without national backing, seems to be the ultimate result, bringing into question the present minimal assumptions that constitute whatever shipping policy may be said to exist in Canada. There are Canadian companies now operating large deep sea fleets and Canadian interests have begun participation in shipping pools. While not operating under Canadian-flag, such companies constitute a potential source of strength for Canada in meeting the problems arising from the current trends in shipping.

Finally it is of some interest to note that the lines that have been making headway or at least holding their own against these strong economic trends include nationally-supported shipping lines, where government assistance in the form of cargo preferences, subsidies and the coverage of deficits is sufficient to counter the trend, and the lines of the Soviet Bloc, whose motivation is the earning of foreign exchange and in the longest term to be a survivor in a dominant position in the industry with the disappearance of competitors who have had to accept economic realities.

All of the considerations regarding international shipping can be identified as interest situations, or as potential interest situations, which require a well-formulated policy to meet their present or future impact on Canadian interests. It will be clear that the answer is not a hasty construction and operation of Canadian-flag ships, but that conditions are evolving that may make some Canadian-flag participation not only possible but necessary.

III. Policies of Other Countries

The policies for the encouragement of shipping that have been followed by the nations of the world would fill a book and require supplements several times a year to keep abreast of the changes that are continuously taking place. In the present section, the aim cannot be to attempt to record all such information or even a summarization of it, but to pull together some of the main features of such policies which might be relevant to the task of formulating a Canadian Shipping Policy.

The main characteristics of national shipping policies taken as a whole include the following:

(1) The shipping industry is in a preferred position in most countries, regardless of the political, economic or social conditions prevailing. Policy decisions are made with the deliberate purpose of strengthening the shipping industry.

(2) This priority accorded to the shipping industry is recognized by other sectors of the economy, so that it is comparatively rare that in matters of trade, industrial development, extension or inception of foreign aid, financial policy etc., that directives giving priority to shipping could be overlooked or ignored.

(3) There is often a close link between shipbuilding and shipping policies, since with the growing predominance of capital costs in shipping, the most satisfactory method of assistance may be to lower the initial cost of the ship.

(4) Such a link is not universally present since countries with shipbuilding industries competing in the export market are prepared to give similar terms to foreign customers. National policies in this respect range from an extremely tight link as in the United States, where an operating subsidy policy for bulk carriers under the Merchant Marine Act of 1970 has had to wait to come into effective use until the ships could be ordered and built in American yards, to an almost complete absence of any such link in a Maritime Nation such as Norway, most of whose large fleet is foreign built.

(5) On the other hand, while domestic-built ships are a rigid requirement for drawing any benefits from national shipping policy in the United States, and the fleets of some Maritime Nations such as Japan and France are for the most part domestic-built, a national shipping policy in many other countries has not been hampered by a nationalistic stand on shipbuilding. Shipbuilding is usually given its own degree of encouragement but is not permitted to interfere or delay the expansion of national-flag shipping under the national shipping policy. This is particularly true of the South American and other third world nations. Brazil and Argentina have both recently placed large orders for ships in European yards. It also would apply to Australia and Russia, although neither could be accused of downgrading its shipbuilding industry. This, of course, does not deny the possibility that many such countries may have as their eventual goal, the

building of their ships in their own yards. They have been able to pursue both aims without forcing them to keep in step.

(6) A wide variety of methods of financial assistance has been developed, many of which are well outside the limits of what might be called orthodox financial methods. Many such methods may be available to other industries, but such is the high rating given to the shipping industry that there seem to be few second thoughts about the degree of preference accorded to this one industry.

(7) Where indirect means of assistance, such as tax remission or deferral are insufficient to sustain ordinary commercial lines, subsidies to private operators may be paid or a government-owned line may be set up whose deficits are met out of the national budget. Cargo preferences and bilateralism are further national consequences of this trend.

The moral of the above characterization of national shipping policies is not that it would be either a necessary or good thing for Canada to adopt each and every such attitude toward shipping or method of assistance, but that these attitudes and methods are an indispensable part of the data to be taken into account in any development of Canadian shipping policy. The nature of the competition that is developing in international shipping will have its impact on Canada and generate those interest situations that will call for a Canadian shipping policy in reply.

Since the United States, Australia and New Zealand are often regarded as being in a similar position with regard

to international shipping as is Canada in being high cost countries confronted with an international industry that has been able to free itself of many of the cost and tax burdens of domestic industries, a review of some of the main features of the shipping policies of these countries will be of some relevance.

United States Marine policy has generally been regarded by outsiders as a type case of a costly, ineffective and unnecessary policy, an example to be avoided at all costs. There was much to be said of its ineffectiveness prior to the passage of the Merchant Marine Act of 1970, but the main criticisms within the United States were not in regard to its costs but in regard to its failure to achieve the objective of a modern and expanding merchant marine proportionate to the volume of trade and the political responsibilities of the country. The significant difference between the Merchant Marine issue in the United States and in Canada is that a large Merchant Marine represents an interest of the United States as a great power and is not merely an advantage as it has tended to be evaluated in Canada. There is consequently a different scale of measurement of costs against results than what would be reasonable to apply in Canada.

The United States program employs a comprehensive range of financial aids, based primarily on reductions in the cost of building and acquiring the ship, but supplemented with operating subsidies which have been extended to bulk

carriers under certain conditions. The main elements of the program are:

- (1) A cost differential subsidy of 41%, to be reduced to 35% in 1976.
- (2) Government-insured loans (Title XI) for up to 87½% of a ship's cost, or to 75% where a construction subsidy was granted.
- (3) A capital construction fund, by which an operator could defer taxes by committing the earnings to a fund. The taxes would be permanently deferred if the proceeds of the fund were used to build more ships.
- (4) An investment tax credit of 7% and accelerated depreciation.
- (5) The permission to use leveraged lease financing under which an outside company by acquiring title to the ship could obtain write-offs offsetting tax liabilities, and be enabled to offer a lease to the operator at a very low net rate of interest.
- (6) An operating differential subsidy to lines and bulk carriers. The requirement that bulk carrier recipients of a subsidy must phase out their foreign registry vessels has restricted the demand for such subsidies.

Of these proposals only (2) and (5) contain elements that would be new and possibly relevant to any Canadian program for deep sea shipping.

The other important aspect of United States shipping policy concern its relations with the shipping conferences both before and after the advent of containerization. The United States has been able to define certain interest situations here and use its strategic economic and geographic advantages to achieve results favourable to its trade, ports and shipping lines. Conferences have been enjoined from actions that would discriminate against United States trade or ports, such as, for example, the granting of a lower conference rate to a Canadian port for any reason. In such ways competing Canadian trade is kept in line since the enormous volume of United States traffic and the greater proportion of higher rated traffic in it makes the shipping lines sensitive to United States reactions. There are serious limitations on the ability of any Canadian policy to successfully outmanoeuvre United States ports and trade. Canadian policy has to be concerned more with survival in the face of United States actions which may have detrimental side effects on Canada even if non premeditated. These remarks afford a logical transition to those aspects of the shipping policies of Australia and New Zealand that are of particular significance for the subject of this study. Australia is connected with its principal trading partners, Europe, North America and Japan by long shipping routes.

Having the final ports of origin and destination, the Australians are in a position similar to the Americans in that they can effectively bring pressure to bear on the conference lines, which are predominantly foreign, to obtain more favourable rates and better services. There are limits to this power, as even the United States Federal Maritime Commission discovered a few years ago in its attempt to dictate rates to the North Atlantic Conferences, but it is effective to the extent that the shipping lines are rendered sensitive to government reactions to such things as increases in rates and reduction or consolidation in services. The geographical isolation of Australia and the fact that all its external trade must go by sea have kept shipping policy in a high priority position, and made it sensitive to threats of monopoly positions in shipping. With the coming of containerization in the British and Continental services to Australia a consolidation of sources took place made inevitable by the high capital investment in container ships and containers. The new basis of operation and the accompanying concentration of control and the uncertainty over the long term effects on rates and services led to a decision by the Australian government to acquire and place in service a container ship as a member of the fleet of Associated Container Transportation and also in its counterpart, Pacific America Container Express (PACE). The ships were to be operated under Australian flag and be assigned on the same basis as any other ship in the fleet. The main purpose of

this step seems to have been to be able to "know what was going on" under the new circumstances. The addition of ships under the Australian flag was also an important but still a secondary reason.

New Zealand policy has followed Australian policy closely in this respect and for largely the same reasons. However, New Zealand did have an additional reason in that it was concerned as to the amount and quality of service that it would obtain, since like Canada, on some important routes it is only an intermediate step, and on others it is an extension of the main route, depending on which direction the ships approach Australia. In either case, the frequency of calls to New Zealand ports might be reduced, particularly if ships could be filled with Australian cargo. Container ships are tied closely to their routes and there would unlikely be any similar ships on hand to take care of New Zealand traffic in such cases. The New Zealand Shipping Corporation, which is government-owned, has entered a partnership with two private lines, P. & O. Line and Shaw Savill, to build and operate three containerships in the Britain - New Zealand trade. The new group will coordinate its services with those of the container lines now serving Australia and Great Britain.

Brief mention must also be made of the policies of South American countries such as Brazil, Argentina, Colombia and Peru. Instead of working in cooperation with existing private operators as the Australian and New Zealanders have done, these countries have taken a direct nationalistic stand

which cuts ruthlessly through all the precepts of a free international shipping industry. From the standpoint of these countries, bilateralism is a concession to the normal practices, since they have laws in effect that reserve the entire traffic, import and export, to ships of their own flag, except where there is a bilateral agreement. The UNCTAD convention, with its specified division of 40-40-20 must appear in this light as a liberal measure. Only the lack of ships, which they are proceeding very actively to relieve, prevents the full impact of these one-sided laws from being felt.

The practice of this shipping nationalism is exemplified by Argentinian law. A law passed in 1969 defines a broad range of cargoes which are reserved entirely to Argentine-flag ships, except where bilateral agreements exist which guarantee 50% of the traffic to the Argentine flag. A later resolution of 1972 requires that in the United States - Argentine trade, any cargoes not carried by United States vessels "will be reserved exclusively for the Argentine flag vessels".*

The policy would appear to be to lay claim to all the traffic, even though much must still be left to third country carriers under a system of waivers, except when resistance is encountered, which is then placated by a 50-50 bilateral agreement. The arbitrary nature of this policy

* See Federal Maritime Commission, Docket No. 73-72, Agreement 10056 - Pooling, Sailing and Equal Access Cargo Agreement. Testimony of Per Schumann - Olsen, President of Westfal-Larson & Co.

leaves no ground for doubt but that any advantages to Canada or to Canadian trade with these countries will merely be coincidental and then only temporary. The application of the policy indiscriminately to import or export traffic means that they have asserted claim to control of the export of other countries' products. Argentina applies its cargo preference discrimination to the southbound trade of newsprint and woodpulp. Concessions that would appear to leave traffic to third country lines are more nominal than real. They apply to too small a portion of the total traffic and that portion is likely to consist of low-rated or unwanted traffic e.g., cargo that must be picked up at outlying ports.

These policies are already changing the nature of shipping sciences between North and South America. With the continuance of the present trend only South America and United States will be able to stay in these trades - all of them subsidized in one form or another. The Inter-American Freight Conference, Canadian Section between Canada and Eastern South American ports consists both outbound and inbound of three active members - two Brazilian and one Argentinian.

Other conferences in the South American trades already show a considerable difference in the number of lines participating in the Northbound and Southbound trades respectively, the reduced number in the Northbound trades accounted for by the dropping out of third flag carriers in the Northbound trade due to the cargo preferences.

The United States has discovered that it can so to speak obtain a "free ride" on the South American cargo

preference laws, since it is able by negotiation to force an equal sharing of this traffic. The discrimination is applied almost entirely on the South American side, for as already noted, it tends to cover imports and exports alike. The only United States commercial cargo preference is to government aid cargoes which are reserved up to 50% for American ships. The United States can thus obtain the equivalent of guaranteed cargoes for its own subsidized shipping lines and the removal of competing third country competition while preserving a show of consistency to its avowed dedication to the principles of free international shipping. Without the heavy subsidization of the American lines which has made it possible for them to operate, these trades would in the course of events fall entirely into the hands of the nationally-owned or supported South American lines.

IV. Canadian Shipping Policy:

The present legislative and administrative set-up

Canadian legislation relating to deep sea shipping and having any policy or administrative stipulations is completely lacking. The Carriage of Goods by Water Act has to do with the commercial aspects of shipping providing the framework for the settlement of disputes within Canadian law and in accord with international conventions. The Shipping Conferences Exemption Act imposes certain obligations on shipping conferences as to tariffs and procedures in rate making specifying the filing of conference agreements and tariffs for public inspection. No powers are given with reference to rates and services.

The National Transportation Act in Section 15 carries on many of the provisions of The Canadian Maritime Commission Act which it repealed. The relevant parts of this Section are:

- (1)(f) *inquire into and recommend to the Minister from time to time such economic policies and measures as it considers necessary and desirable relating to the operation of the Canadian merchant marine, commensurate with Canadian maritime needs:*
- (2) *The Commission may examine into, ascertain and keep records of, and make appropriate reports to the Minister on,*
 - (a) *the shipping services between Canadian ports and from ports in Canada to ports outside Canada that are required for the proper maintenance and furtherance of the domestic and external trade of Canada;*
 - (b) *the type, size, speed and other requirements of the vessels that are and in the opinion of the Commission should be employed in such services;*
 - (c) *the cost of marine insurance, maintenance and repairs, and wages and subsistence of officers and crews and all other items of expense in the operation of vessels under Canadian registry and the comparison thereof with similar vessels operated under other registry;*
 - (d) *the water transportation industry and undertakings and services directly related thereto;*
 - (e) *the terms, conditions and usages applying to transportation of goods and passengers by water within, into and from Canada;*

- (f) *the work of international and intergovernmental organizations and agencies that concern themselves with the transportation of goods and passengers by water; and*
- (g) *such other marine matters as the Minister may request or as the Commission may deem necessary for carrying out any of the provisions or purposes of this Act.*

It will be noted that these provisions are limited to investigation and reporting with no power or direction for administrative action. Subsection (2) paragraphs (a), (b) and (c) reflects the climate at the time of the creation of the Canadian Maritime Commission in 1947 when Canada still possessed the large merchant marine developed during World War II. The service requirements, vessel types and costs of operation suggests the aim of mobilizing data that could be used to justify any policy of financial support along the lines of the American practice. Such a policy, based on advantage situations, had no chance of any support in the light of the highly competitive and profitable state of the postwar shipping industry, and the data collection, reports and studies requirements in the Act were given only a token recognition.

As problems have appeared and trends in international shipping potentially harmful to Canadian interests are being recognized, it becomes clear that the machinery to deal with such matters is either non-existent or of such a cumbersome nature as to be totally ineffective. This is in contrast to the situation in the United States where two bodies - The Federal Maritime Commission for regulatory matters and The Maritime Administration for promotional and policy implementation - are both armed with wide powers under specific legislation, and are spurred to use these by a strong shipping bloc in Congress.

In the absence of any such purposeful administrative system in Canada specific action on shipping policy matters, even of the most minor nature, would require a Cabinet decision. No department or agency under any legislation or order-in-council is empowered directly to deal with particular situations. Hence the state of helplessness and indecision that must impress foreigners whenever they observe our attempts to grapple with the simplest interest situations. A recent example is the threat to Canadian interests arising from the United States-South American bilateral negotiations. There is doubt on the part of the interested parties, namely foreign embassies, shipping lines, shipping agents and shippers themselves, as to whom they should approach to draft out an admission that Canada can do nothing about their problem. Have they any reason to think otherwise? The Ministry of Transport, the Department of Industry, Trade & Commerce or the Canadian Transport Commission can only reply to such appeals by wringing their hands and offering words of comfort like clergymen around a deathbed. The threshold for action on shipping matters is so high - a Cabinet decision - that specific issues must necessarily be left to go by default. Thus only matters that are held to be of the widest importance have any chance of getting serious attention and action, and here again in the nature of the case, such action is likely to be painfully slow in being mobilized and clumsy in aim. In other words to be able to respond at all even to minor problems it would be necessary that they be inflated in importance to become worthy of Cabinet consideration. Thus, in the South

American issue, if one were to press hard enough for some sort of effective response, it is likely under such conditions to have to be nothing less than that we should start to build and operate our own ships ! This illustrates the absence of any flexibility in dealing with a variety of small situations, none of them deserving to be ignored but at the same time not justifying the fantastic overkill which is almost the only alternative given the lack of policy and administration in shipping. It is a policy of offering either nothing at all, or much too much and much too late. Interest situations and advantage situations tend to become confused with one another and even if there is something right about a decision it is just as likely to be supported by the wrong reasons.

With the lack of any clear designation of responsibility for policy, decisions must be arrived at through the mechanism of an interdepartmental committee. Such committees are a useful and indispensable part of government operations but it will be clear that their most effective roles are either (1) in the formulation of new policies for matters that escape any existing administrative net, or (2) on a continuing basis to decide matters that clearly require input from several sources on each occasion, but for which it is not considered necessary or desirable to entrust to a single body set up for that purpose. In the latter case, however, effective operation is generally dependent on having a specific directive spelling out the scope of the committee's responsibility, e.g. a Cabinet document. In respect of shipping issues it would seem that there is no such directive so that even the possibility of an

interdepartmental committee on a continuing basis is ruled out, however inadequate this itself might be.

The result is that any positions taken are either arrived at independently by the departments or agencies each of whom might feel that it is the appropriate formulator of policy, or on an ad hoc basis by informal consultation. There may be a jockeying for position to seize the non-existent responsibilities, or perhaps a quarrelling for the right of first refusal to act on any appeal from the outside. Each approaches the problems of shipping with its own terms of reference, its own interests and order of priorities and it is out of these heterogeneous and often conflicting motivations that some effective response is hoped for. To outward view, the Canadian position on the interest situations involving international shipping must seem curiously fragmented and contradictory, with important decisions being decided elsewhere and in the light of other considerations. There is lacking the cohesiveness and unity of purpose that characterizes the shipping policies of most of other nations, quite apart from any question of the actual merits of such policies.

V. The Role of the Canadian Shipbuilding Industry

The Canadian shipbuilding industry has been an unwavering advocate of a Canadian Merchant Marine, so much so in times of reduced activities that the Canadian-flag shipping issue has become identified in many minds with a means of keeping the shipyards busy. This has had some unfortunate consequences for the formulation of an acceptable shipping policy to the extent that it has led to an evaluation of that policy almost solely on the basis of advantage situations. Shipbuilding activity can be a result of a policy of putting Canadian-flag ships to sea and be regarded as part of the multiplier effect of such a policy. Shipbuilding is also credited with having a strong multiplier effect of its own so that the basis laid for a favourable cost-benefit ratio for any public investment in deep-sea shipping. But this means that shipping policy becomes merely a means to a greater end, and the possibility that uneconomic and unnecessary shipping questions might result may be brushed aside since the purpose of the policy will have been achieved if the shipyards are fully employed. But this to evaluate the policy only on the basis of advantages, which are hypothetical and fatally exposed to the criticisms based on opportunity cost. Activity in the shipyards is a good thing but it must be regarded as a by-product or a fringe benefit of a shipping policy that should be directed primarily toward specific interest situations.

However, such considerations should not be interpreted as favouring the exclusion of the shipbuilding industry as a factor to be considered in the framing of a shipping policy.

The ideal situation might well be the construction of all ships in Canada for Canadian-flag operations in international shipping. However a realistic policy will be oriented more closely to meeting interest situations than in reaching for hypothetical advantages, and as such will be conditioned by such factors as the need to act promptly. This might involve, for example, the initial use of chartered tonnage, or for few ships of a variety of types or for ships of a size or type not feasible to build in Canada. Shipbuilding policy has received full recognition since the adoption of the construction subsidies in 1962 and more recently with its extension under the Shipbuilding Temporary Assistance Program in 1971 which enabled the industry to obtain orders for the export market. The combined domestic and export orders now on hand have presently assured the shipyards of full activity for some 2 to 3 years ahead. Meanwhile there is a backlog of government ship requirements building up which will prolong the present period of maximum activity. In short, if there is to be justification for a Canadian shipping policy, there can be no possibility at this time that it would have to depend on keeping the shipyards busy. There is thus an opportunity to lay the groundwork of a practical shipping policy independent of the needs of the shipbuilding industry and avoid a familiar obstacle to the acceptance of any policy purporting to link the two industries, in that any policy sufficient to have a significant and evenly-distributed impact on shipbuilding is usually far in excess of that required for dealing with actual

problems in international shipping. Restated in the conceptual form adopted in this study, this much exemplifies the statement that particular interest situations require particular or selective response directly aimed at the problem in hand and not overall programs based on advantage arguments.

Nevertheless the Canadian shipbuilding industry should have the opportunity, and under carefully defined conditions, even a preference, for the supplying of any ships required under a shipping policy. But there must be some selectivity here, the probably nature of which can only be suggested at this point. It would be generally agreed that if the Canadian yards are to stay within competitive distance of foreign yards subsidy alone will not be enough. They will have to make decisions as to the types of ships they are best qualified to build and have to take advantage as much as possible of the economies arising from building in series or in standardized types. The yards now engaged in the STAP program recognize this as a necessary condition for their continuance in this highly-competitive market. But this means that they may either not be available for building of a particular type of ship required by the shipping policy, e.g. a container ship, or that it would be to their greater advantage to stay within the range of standardized types to which they may have committed themselves. In other words the respective programs of shipping and shipbuilding will not necessarily dovetail but should only meet on terms which are clearly to their mutual advantage. It would appear to be a logical choice for the shipbuilding industry to specialize in the main types of Arctic bulk carriers required for Canadian

coasting and international trade, since in this sphere Canada should have the objective of becoming a leader in the technology. Justifications for other specializations will also likely arise.

The time factor will be an important element in making possible any co-ordination of the two policies. Immediate situations, or situations falling short of requiring a Canadian-flag operation present little opportunity for the shipbuilding industry. There will be cases, however, where immediate action may be required which will have a lasting effect. Here, there is the real possibility of phasing in Canadian-flag shipping and, at a further remove, Canadian-built Canadian-flag shipping. A not unrealistic example of the successive stages of the upgrading of the Canadian content of a particular shipping operation can be given.

- (1) A foreign shipping line might be designated as a Canadian "national line" for the purposes of sustaining Canadian interests in a cargo-sharing situation.
- (2) A private Canadian financial interest might be acquired in the line, or undertake operation of the line.
- (3) A foreign-built ship already in service on the line or purchased elsewhere might be put on Canadian-flag.
- (4) A new ship for the line might be built in a foreign yard for Canadian-flag operation.

- (5) A new ship built in Canada may be put in service on the line.

The steps illustrated here are not the inescapable steps in a mechanical process, but could be condensed into fewer or into a single step under favourable conditions, and it should be assumed that the directors of shipping policy would be mindful of the possibility of advancing the Canadian content of the operation at every reasonable opportunity. The longer the period involved the easier it will probably become to achieve the objective. Here again, however, a warning against force-feeding is in place. Too rapid a progress might either lead to the disposal of the ships or their transference to another flag, or, if that were regarded as too distasteful politically, the saddling of the government with the costs of sustaining a highly uneconomic operation.

VI. Views of Canadian Shipping Industry and Labour

Interviews were held with a considerable number of Canadian shipowners, charterers, operators, agents as well as with leaders of the more important Maritime unions. The questions asked were about the necessity, possibility, desirability and the prerequisite conditions for the putting of the Canadian flag on the high seas. It is not surprising perhaps that there was unanimity on the question of the desirability of there being Canadian ships in international trade, the degree of personal interest varied from a proposal that virtually duplicated the American policy but without the operating subsidy feature, to a complete disinterest combined with a plea for the recognition of the value to Canada of the operations of Canadian owners and Charterers under foreign flags. There were several indications of willingness or even eagerness to operate under Canadian flag provided the government provided the "right conditions", which are not now present in the existing economics of international shipping.

The main features of the very detailed proposal to be offered were the following:

(1) A 40% building subsidy with the balance by self-financing, or a 25% subsidy plus a 20 year government guaranteed loan at a low rate of interest on $87\frac{1}{2}\%$ of the net value.

(2) An exemption from the withholding tax for interest earned by foreign lenders on Canadian ships, to widen the available money market.

(3) A flag-covenant for a minimum of five years.

(4) Owner benefitting from the policy to be 100% Canadian.

(5) Several negotiable points, such as limitation and recapture of profits beyond that limit, reinstatement of the so-called "Angel plan" for financing ships, a covenant to repair in Canadian yards, etc.

(6) Program to be based on assessment of the general needs for ships, e.g., bulk carriers, petroleum products carriers and the capabilities of Canadian yards to building them.

This program amounts to more or less a restating of the classic approach to a deep sea shipping policy. It is entirely based on advantage situations and therefore could not be selective in dealing with particular internal situations. The degree of subsidy assistance is out of line with present domestic policy and if it were to have the desired results it would put a number of Canadian vessels in the general bulk trades with no necessary participation in the movement of Canadian traffic. Such operations may be desirable but should be less dependent on government assistance. Operators would be set up with very little capital investment on their own parts and with freedom to transfer to a convenience or tax haven flag after five years. While virtually all items of the program are probably "negotiable", the general approach contemplates a scale of assistance and operation that could lead to a heavy financial cost to the government without necessarily

contributing anything toward the relief of the interest situations that are arising for Canada in international shipping. The focus of interest is on the size of the program and the scale of assistance required to get it underway, rather than on specific problems.

Outside of programs on such a scale, there are points on which a general consensus seems to exist:

- (1) Some standard minimum form of financial assistance would be required to induce operators to switch to Canadian flag, but not in form of an operating subsidy. There was generally the view that the availability of credit from the Export Development Corporation to foreign purchasers of Canadian-built ships was inconsistent with the unavailability of similar terms to Canadian operators.
- (2) Agreement between Management and labour on the manning scales to be used and on the use of binding arbitration for disputes is needed. The need for such prior agreement is even greater on the government's part.
- (3) Canadian ships should operate competitively in world shipping, should be able to build ships anywhere or acquire them in the open market.
- (4) Steps must be taken to provide training facilities for the officers and crews required for any Canadian ships.

Other points raised by individual operators included:

- (1) Government policy be geared to supporting and cooperating with the operators and not be confined to the laying down of regulations and conditions.
- (2) There should be no duty on the importation of ships. On this point it might be noted that a Canadian-flag foreign-built ship would only have to pay duty if it applied for a coastal license.
- (3) Profits of Canadian operators of foreign flag shipping should be free of taxation when brought back to Canada.
- (4) Wages on Canadian ships should be indexed to British wages in order to satisfactorily reflect the current levels in international shipping.
- (5) At the start, any program should make use of the expertise and experience already available rather than throwing it open to all comers.

On the whole, a reasonable and realistic attitude was found to prevail among ship operators. They are not unwilling to participate but do not expect to do so at a sacrifice of greater alternative opportunities, although a certain leeway seemed to be offered here by some. Nearly all showed no enthusiasm for the American type of policy and

thought that while initial assistance might be required, Canadian flag operations should aim to be self-supporting and that government assistance should not be in a form that would encourage a continuing dependence on it.

Labour leaders seemed equally prepared to take a realistic stand on a possible future Canadian-flag operation. Starting from close to nil there would be no traditional standards or methods that would have to be disturbed by the introduction of the most efficient manning scales. It was conceded that at the start there might be difficulties in obtaining sufficient personnel, but it was pointed out that while this had been the case in some recent Canadian offshore exploration activities this phase had passed and there was now no problem of shortage of manpower for these operations. At the same time, heavy emphasis was placed on the need for adequate training schools for Canadian officers and Men in order to be in a position to meet demands. The probable expansion of coastal, including Arctic activities, whether in oil exploration or fishing patrols would create a demand for personnel which would dovetail into any demand for Men for deep sea ships.

The more sensitive question of binding arbitration was likewise not regarded as being a problem, here again because of the new area that would be concerned. The suggestion by one operator that the Canadian wage level be indexed, i.e. set at a fixed relation, to the British wage level was not discussed in detail but might have the advantage

of narrowing the area of dispute. On the other hand it might be held to have the disadvantage of relegating union either to merely routine activity in bargaining situations or to an exaggerated concern for items outside the indexing rule, such as fringe benefits. These, in the modern automated ship, have become the real points of contention, more critical than the actual levels of payment.

A Canadian shipping policy thus starts with the advantage of being able to build from the ground up. There will be few vested interests or positions that would impose their hampering conditions on the initial operations. However, it is not suggested that the government should proceed entirely on faith in such matters. A hard bargaining line should be followed in all cases, bearing in mind that the worst result might be to have a fleet of ships that had to be sustained for political reasons, leaving both operators and labour free to impose their own terms with impunity. The desired conditions, both in financial assistance and in labour pay and conditions of work, should be accepted beforehand as a condition of the government of receiving benefits from a policy of assistance.

VII. General Strategies for a Deep Sea Shipping Policy

The preceding sections have been concerned with the conceptualization of the problem and a survey of the current situation in its different aspects. Already in the course of this exposition the general strategies for a shipping policy have been touched upon, and it therefore becomes a matter here largely of a recapitulation of those strategies which will serve as a basis for the development of the specific policy recommendations that follows in the remaining part of the Study.

(1) A general policy statement on the part of the Government is an essential starting point. This should serve not only to legitimize the responsibility of a Department or Agency for shipping policy but should also be useful in dealing with shipping situations with foreign governments, and in strengthening the bargaining position of Canadian operators or producers vis-à-vis foreign purchasers, shipping lines or governments. It would be a case of making known our sensitivity on the matter of international shipping which could hardly fail to be better than the complete blank that now exists.

(2) The placing of Canadian-flag ships on the high seas is not to be regarded as an isolated objective but should be closely integrated into a general shipping policy. It is therefore not an end in itself - an advantage situation - but one means among many of protecting Canadian interests in the field of international shipping.

(3) Shipping policy should be organized to cope with the different kinds of interest situations that are now arising and which promise to become more serious in the near future. Canadian-flag shipping may not always be the most effective answer to particular situations, but the policy should have it as an objective to be implemented whenever favourable conditions arise, and should develop the sorts of solutions that would make easier its eventual adoption.

(4) The existing structures in international shipping should be used wherever they offer the most effective means of dealing with particular issues. This would include third flag shipping, whether Canadian operated or not, and the services directly available through Canadian operators. The expertise of these companies should be used in preference to any direct participation by a government agency in the operation of ships.

(5) In order to have on hand a practicable plan of assistance that could be invoked on short notice and for individual cases, there should be a basic program at the disposal of the shipping authority. This would specify whether financial assistance methods were considered suitable, the undertakings that would be required of the operators and labour so that agreement and action could be obtained without the long and laborious progress through a number of departments that shipping measures now require. The basic programs could be of two types.

(a) one with flexible terms that could only be authorized by the shipping authority in specific cases.

(b) a facilitative program available to any ship operator meeting whatever qualifications that might be set to enable him to engage in international shipping under Canadian-flag. This would be independent of interest situations and would represent a minimum level of assistance. This would help to ensure that it would be mostly experienced operators who would take advantage of the program. Such a basic program would have offset the anomaly of having the only plan of credit assistance geared only to serve foreign buyers.

(6) The possibility of the particularization of assistance which the strategy of (5) would permit should also be instrumental in developing a positive and flexible approach to the use of new methods particularly in financial assistance. Since their application could be restricted to particular situations subject to the authorization of the shipping authority there should be less concern with the fears of exposing them to general application. It would be recognition of the fact that the particularities of interest situations may best be handled with specific methods for which there is no intent or need to apply generally as would

be the case in advantage situations. The one-sided principles adopted by some countries as a means of encouraging the growth of their shipping are difficult to counter if one is restricted to solutions which must have a general application. In other words, the policy should be capable of fighting fire with fire.

VIII. Definition of the Principal Interest Situations

This is a recapitulation of the principal interest situations with which Canadian shipping policy should be equipped to handle , and an assessment of the role of Canadian-flag shipping in each one. Interest situations as the term is used in this Study are situations where Canadian interests are considered to be involved and/or threatened, whether in the short term or long term or whether only potentially. Their nature is such that if no action were taken an erosion of Canadian interests would likely result.

(1) The bulk trades, including the Arctic.

The bulk trades such as ore, coal and other minerals involve for Canada the exportation of irreplaceable resources on an ever-increasing scale, since the pace of industrialization can only be sharply upward if world standards of living are to rise. While Canada might be content to sell these resources f.o.b. port, the failure to take advantage of an opportunity to participate would appear to be an abdication of important interests. There is no benefit in the long run in remaining true to the principle of international division of labour of classical economics if all other countries are prepared to play according to different rules whenever opportunity offers.

The relevance for Canadian shipping, and for Canadian shipbuilding, is probably the greatest in the movement of Arctic resources. Here it might be agreed that it would not be sufficient to be satisfied with a token participation simply "to know what was going on". The Canadian input in technology, ships and shipping should be a major

factor in the exploitation of Arctic resources. Since it is likely that Arctic ships will be highly specialized for operation in this area it would follow that they may be kept in the area during the short seasons by means of shorter routes and trans-shipments which would be all the more reason for a strong Canadian-flag representation. The possibility of mixed international and coastal voyages would be an additional reason for favouring Canadian shipping.

A different situation admittedly will apply in other bulk trades. In grain, the variability in markets and volumes and the irregularity in shipments make this trade an open one with very few, if any, dedicated ships. In ore and coal, on the other hand, movements are much steadier and, except for the very long intra-oceanic movements, lend themselves more to a shuttle-type service between a few ports with either long-term charters or contracts of affreightment. The means of entry for Canadian ships into these trades might be either by a tying-in with the contract for the resource, or an arranged deal with existing Canadian deep-sea operators. A long-term charter would assist in the financing but is not an indispensable element. In periods of depressed rates it is difficult to set long-term charters not so much because of any fear of ultimate disappearance of cargo but because of reluctance of shipowners to make such contracts under unfavourable circumstances. The size of the ships now operating in these trades, the need to make arrangements within a limited time and the sporadic nature of the particular occasions make the link here between Canadian shipping and Canadian-built ships much looser. Certainly the opportunity to build a ship

in Canada should not be passed over, but to insist upon it as an initial condition would likely mean the giving up of many opportunities of getting Canadian-flag ships started in these trades.

Several shipping people interviewed took the position that there was a good opportunity for the Canadian building and operation of petroleum products tankers. These are ships within the capacity of the larger Canadian shipyards, and would find employment in the anticipated rising volume of such traffic, in particular from the newer Canadian refineries on the Atlantic Coast. The opportunity has been lost to tie in the substantial federal and provincial assistance to refineries at Port Hawkesbury, St. Romuald and Come-by-Chance to shipping conditions but there would seem to remain many points in favour of Canadian participation, one of which being the mixing of coastal and international movements.

(2) Container services.

The Australian and New Zealand examples of placing ships in the container pools serving the principal trades should be noted in dealing with interest situations that will arise in these trades. Containerization by its very nature, has led to consolidation and cartelization. The elimination of much of the competing services leaves the question as to how far the remaining competition between the members of container conferences can safely be assumed to correspond to national interests in trade and port use. The Canadian situation is not a parallel to that of Australia, but more closely resembles that of New Zealand. Many container lines on both Atlantic and Pacific

serve both Canadian and United States ports. The attraction to the larger volumes and higher-rated traffic in American trade could lead to reduction in space available for Canadian traffic, reduction in number of calls at Canadian ports or diversion of Canadian traffic through American ports. Since all of these factors would tend to have a cumulative effect on Canadian ports, there is clearly an interest situation involved here. The ensurance of a Canadian interest in the trade, through either services serving Canadian ports exclusively, whether wholly foreign or having a Canadian content, and ultimately Canadian-flag ships in the key trades must be an important topic on the agenda of a shipping policy. The existence of a Canadian interest in Dart Container Lines is credited with giving a level of Canadian trade well above original forecasts.

(3) Bilateralism.

The many threats to Canadian interest from the development of nationalism in shipping, including the extension of bilateral agreements between the United States and South American countries should not see Canadian policy remaining helpless to check adverse trends. The implied control of Canadian export trade, even though only in small areas to start with, the elimination of third flag lines, the dominance in conferences of national shipping lines and the loss of traffic and services at Canadian ports all represent serious interest situations. Reliance upon the continued effectiveness of free competition in international shipping, or on the vague term protecting third parties in the proposed Convention on a Code of Conduct for Liner Conferences is obviously to reduce shipping policy to ineffectual

moralizing and expostulation. A study of the terms of the Convention and of the current actions of the principal nations responsible for it would lead one to suppose that the Convention will have propaganda value alone while the nationalistic policies go far beyond it in actual practice. Only where there is resistance will the grasp of such nationalistic policies be released, so that Canada must consider, however distastefully, the possibility that a degree of bilateralism in the proper areas may be the best defence of Canadian interests. Otherwise, we would only be strengthening the position of the nationalistic shipping countries by conceding all our traffic to them.

The issues of containerization and bilateralism, at least in the first stages of policy may not involve a close linkage with Canadian-flag ships, but over the longer term this will be of greater importance. Effect replies to bilateralism may be found purely at the diplomatic level, utilizing the threat of having to share traffic, or in the utilization of third-flag lines with or without a Canadian capital investment. As it becomes possible to make long-term plans to deal with such situations the possibilities of using Canadian ships will increase, as may also the possibility of using Canadian-built ships.

(4) Canadian ports.

Much of what has already been said about the interest situations in containerization and bilateralism applies directly to the interests of Canadian ports. But in addition there are interest situations affecting the ports that are located within the country. This refers to the general need to mobilize the support of manufacturers, and other shippers, including govern-

agencies, for using Canadian ports as much as possible. Nothing comparable exists in Canada to the Maritime Administration's Office of Market Development in the United States. While the OMD is primarily interested in urging the use of American shipping lines it has been active in urging the use of American ports in those areas where Canadian competition was being felt. The mobilization of thinking in line with shipping policy objectives is seen as a necessary factor in making the policy a success. The small scale and dispersal of the efforts between private and public bodies in Canada leaves a big gap to be filled if a successful implementation of new shipping policies is to be realized. The use of Canadian ports for exports and imports, the selling on c.i.f. terms that would keep control of the routing and insurance in Canada, and the addition to the code of conduct for foreign-owned businesses in Canada that traffic and shipping decisions should be made in Canada in the interests of the Canadian economy and not left in the centralized control of an American head office, are points that shipping policy should put forward if the serious interest situations involving the use of Canadian ports are to be properly met.

The above considerations can be summed up in the policy objective of maintaining the shoreside infrastructure of the shipping industry in Canadian hands. This includes those elements having an important responsibility for the routing of traffic such as the freight forwarders. Many of these are small organizations that escape the net of the takeover laws. Reports

of takeover of such firms by American interests gives rise to the disquieting possibility that these activities over time might be orientated toward or integrated with the American port infrastructure, Canadian routes becoming only a secondary or token interest. The latter will be left with the purely non-competitive traffic, while any competitive traffic will simply beat an ever broader path to American ports. Yet the maintenance of such traffic at Canadian ports will be vital to their long-term vitality, given the basic fact that gains or losses of traffic at ports have a clear tendency to become cumulative.

IX. Alternatives and Bargaining Levers in Shipping Policy

As has already been emphasized, national policies have been encroaching on the free play of competitive forces in international shipping, not merely in the crudest forms of cargo preferences for nationally-operated lines but in assistance and encouragement in a great variety of ways to private shipping operating under the national flag. Consolidation of control in container consortia, shipping pools and in multinational conglomerates further limits the scope of effective competition in aid of the trade of a non-shipping nation such as Canada. To offset the present, and more important still, the future effects of such trends Canada should be prepared to draw upon the widest possible range of alternatives for policy, with the general aim of making our reaction proportionate to the importance of the action that has prompted it in the first place. While necessarily because of Canada's weak position in shipping and need for immediate responses to current situations, policy at the start may largely be considered as reactions to outside incidents, over the longer period the administrative means and experience will be available as a basis for positive steps in policy since an effective structure to meet interest situations will steadily bring more advantage situations within the reach of practical policy.

At the very least general policy statements, even if only of future intentions, can be effective in altering the attitudes and decisions that are touched by them. A report on

ship ownership by the Canadian Transport Commission in 1969, although even yet not enacted, effectively ended a threatening wave of American takeovers in the Great Lakes fleets, while a report on coasting trade policy, likewise still not in the law, created an atmosphere that helped to influence many offshore operators to build ships and drilling rigs in Canada.

The control of resources offers another level which may be applied to increased Canadian deep sea shipping, but within limits. Arctic resources are under federal control but elsewhere resources are under provincial control, with those on the Continental Shelf still being a subject of dispute. The tying in of shipping to resource exploitation might be welcomed in British Columbia, which has already given evidence of interest in shipping matters, and might be acceptable in the Atlantic Provinces, since in both areas tangible results would be the use of the ports and the local employment created. More problematical would be the attitude of an inland province such as Alberta where royalties and local processing would be of greater interest. However many large scale resource developments have required and obtained substantial government aid through direct grants or loans, for harbours, roads, townsites, production facilities as well as tax holidays. A shipping clause in many such agreements could be inserted without causing the death of the project, particularly since if it were to become the general practice it would more likely be accepted as a matter of course, rather than being portrayed as now as the straw that would break the camel's back. Moreover, some of the countries who may be directly involved, or indirectly through their own citizens,

already follow such practices in their own shipping policies and are therefore in a weak position to urge abstract principles upon us.

In meeting the interest situations that may arise in container shipping and bilateralism it becomes particularly important not to over-react by an unnecessary and costly build-up of Canadian shipping. The number of ships required to meet such situations is likely to be small, and alternative methods are likely to be less expensive and more effective. The use of third-flag lines, or of foreign ships having a Canadian interest or operated by Canadians may be the best way, if only serving to buy time until a Canadian ship can be added to the service. Use of these resources might require almost no financial commitment from the government, since insistence on a sharing of the traffic might ensure economic operations.

Bilateralism, particularly between two other states, which has a detrimental effect on Canadian trade acquires a clear formulation of national policy. In the South American trade, a threat to sponsor our own line might be a strong card, since all the traffic may now be going to South American lines. In the case of traffic between, say, Canada and Brazil, the total traffic to be shared must comprise that discharged or loaded at United States ports. Since the Southern American lines call also at United States ports whereas^a Canadian-based line might be forced to sail direct because of the cargo preferences in effect between the United States and Brazil, this would mean that the larger share of the traffic through Canadian ports would have to go to the Canadian-based line to offset the Canadian traffic handled

by Brazilian lines through American ports.

Other opportunities to defend our interests by applying bargaining levers should not be neglected, and a careful examination of the strong and weak points of our position must be the responsibility of those responsible for shipping. Such knowledge can only come from a close day-by-day familiarity with the changing events in international shipping. This can come through an effective liaison with those Canadian companies presently engaged in shipping, as owners, managers or charterers. Their experience should be drawn upon, and where active intervention is required in particular situations it is to these operators that it would be natural to turn. Bargaining situations may arise with these operators, for example, in the matter of repatriation of profits from foreign shipping operations. Reciprocal taxation agreements are of course not concluded with tax haven countries, although channeling of profits through several companies and jurisdictions may offer loopholes in some cases. In such cases there may be a pool of taxable income, earned from shipping, which might be utilized to develop Canadian-flag shipping. Such financial adjuncts of shipping policy should be thoroughly tested, since were they to be applied only in particular cases, they might overcome the disadvantages of direct subsidies and give prompt results in particular interest situations. Financial legislation such as the Income Tax Act, the Bank Act, should be examined to see whether and to what degree pools of taxable income might properly be used, if only in specified cases, to further the aims of shipping policy and the development of Canadian-flag shipping.

Finally, if policy objectives can be agreed upon, there must be a consistent attitude maintained toward them. A danger exists that policies developed to deal with interest situations might at any point be evaluated purely as advantage situations and dropped while flexibility in strategy is desirable, including a readiness to scrap unsuccessful projects, a certain steadiness in the long term policy priorities is also required. Other countries in pursuing what, from our standpoint appear to be marine nationalistic goals, nevertheless are creating situations which they regard as beneficial to them in the long run. They are not dissuaded by reduced profitability or losses since this is part of the cost of reducing the competition and establishing a strong shipping position for themselves. Although working from the opposite side, Canada should regard the measures dealing with interest situations in the same perspective. To revert in mid-course to the old confusion between interest and advantages would be to give up for good any possibility of maintaining or bettering our position in clearly defined interest situations. The criteria relevant to advantage situations, if applied to the exclusion of all other criteria, already today lead directly to the advocacy of taking no positive action whatsoever, because it would not be profitable. We are already faithfully following that advice, but it should be noted that there is still discontent over the lack of a shipping policy.

X. Steps to be taken in implementing an effective Shipping Policy

The basic prerequisites of an effective shipping policy can be simply stated:

- (1) A positive attitude toward shipping problems, a recognition that they are important in themselves and not merely a troublesome residue of other more important problems.
- (2) A consolidation of authority for dealing with shipping policy.
- (3) Effective powers for such an authority. At present, responsibility is split several ways but there are no powers in the hands of any of those claiming the responsibility. This has left us with the sole recourse of preaching, rather anachronistically, the doctrines of Adam Smith to an economically agnostic world. Other countries are doing the same but mainly because it is obviously in their interest to do so, with their large shipping fleets engaged in world-wide trading. They have not however denied themselves the use of all other policy weapons but remain poised in a flexible position ready to defend or further their own interests.
- (4) A readiness to take the initiative in the use of the powers granted.

There is a logical time sequence in the mounting of an effective shipping policy and the specific elements outlined below are given in an approximate temporal order. It will be obvious nevertheless that such projects can and should be pursued concurrently, the objective being to complete the set-up within the shortest possible time. It is therefore recommended

that a critical path plan be developed that would keep to a minimum the gaps and delays, and provide for interim situations pending the completion of the permanent structure, e.g. pending the passage of any necessary legislation. The prime objective here should be to end as quickly as possible the prevailing state of confusion and helplessness.

Policy Recommendations

- (1) The centralization of control and administration of matters relating to international shipping, with effective powers being given to deal with interest situations and pursue long term objectives.
- (2) The announcement of a policy stance on shipping by the government which would
 - (a) define Canadian interests in this field.
 - (b) refer to intentions as embodied in (1) above.
 - (c) make other countries sensitive to the effects of their policies on Canadian trade and shipping.
 - (d) mobilize public opinion in support of the shipping policy.
- (3) Be prepared to deal directly with countries whose shipping policies affect their trade with Canada. U.S.-South American bilateralism cannot be effectively fought by appealing to the United States, but by confronting the various South American countries involved. We should have options of "trilateralism" or "continentalism" to put forward as possible half-way points to forestall an extreme bilateralism. Fullest advantage should be taken of shipping agree-

ments signed with other countries to protect and develop our own interests and avoid giving away one-sided advantages.

- (4) Develop a close liaison with Canadian shipping companies now active in international shipping, since it will be these operators who may be expected to play a leading part in the implementation of various aspects of shipping policy. The Canadian Shipowners' Association, formed from the private owners of the postwar Canadian Merchant Marine, has become largely inactive although it still includes among its members some of the companies who own and charter foreign-flag shipping. If this Association cannot be resuscitated a new body having aims sufficiently broad to attract membership of all such Canadian operators would be desirable.
- (5) A policy document specifying the role of Canadian shipping in the exportation of Arctic and other bulk commodity resources should delineate the separate and collective responsibilities of the transportation and resource-administering departments. This will have the effect of making shipping an integral part of resource policy and not as at present mainly an afterthought.
- (6) The shipping authority should have a wide choice of methods for dealing with the various types of interest situations that may arise. In its handling of these matters it should be supported by diplomatic interventions where necessary and by the trade, shipping and transportation industries in Canada.

- (7) The shipping authority should have two basic levels of programs as outlined in Section VII: in a minimum plan for the encouragement of Canadian-flag shipping available to any applicant capable of satisfying the qualifying requirements; and a special "arsenal" of methods available for immediate use or for meeting the widest variety of interest situations. Such methods should include administrative, economic and financial means whose main characteristic would be that they are not necessarily designed for general application.

The minimum plan should include provision in some form of credit roughly comparable to that available in other countries and to that now available to the foreign purchasers of Canadian ships under the Export Development Corporation. In return for these advantages operators would be expected to accept a "flag covenant" - an agreement to keep the ship on Canadian-flag for a definite period - and give evidence that he has an agreement with a labour union for the binding arbitration of disputes. This plan would enable Canadian operators to start deep sea operations for their own reasons, not necessarily connected with interest situations.

The terms extending beyond the minimum plan for the handling of particular interest situations are not to be considered some striking or unusual innovation in policy for such steps have often been undertaken in many different fields on a basis of ad hoc decisions. The difference and the advantage here will be that the usual difficulties affecting ad hoc decisions - whose responsibility is it and what is to be done? - will in large measure have been worked

out in advance so that they can be applied with some decisiveness when a situation calls for it.

- (8) The developing of such special methods should be a continuing responsibility of the shipping authority and can be proceeded with by means of small standing committees covering such aspects as port development, trade, financial methods of assistance, resource exploitation and the like. The expertise that will be acquired through such studies, through contacts with the Canadian shipping industry and through the implementation of policy should produce a shipping administration with a practical and realistic grasp of policy alternatives and fully capable of protecting and advancing Canadian interests in international shipping.

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